

DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Wednesday, August 12, 2015

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL US

- August 3
 - Personal income / spending (Jun)
 - Core PCE deflator (Jun)
 - ISM index manufacturing (Jul)
- August 4: Industrial orders (Jul)
- August 5
 - ADP employment change (Jul)
 - Trade balance (Jun)
 - ISM index non-manufacturing (Jul)
- August 6: Initial jobless claims (August 1)
- August 7
 - Non-farm payrolls (Jul)
 - U/E rate (Jul)

EUROZONE

- August 11: ZEW Survey Expectations (f, August)
- August 12: Industrial Production (June)

GREECE

- August 13: Quarterly National Accounts (estimates, 2nd quarter 2015)

SEE

BULGARIA

- August 10:
 - Trade Balance (Jun)
 - Industrial Production (Jun)
 - Retail Sales (Jun)
- August 12: CPI (Jul)

ROMANIA

- August 10: Trade Balance (Jun)
- August 11: CPI (Jul)
- August 11: Industrial Production (Jun)

Source: Reuters, Bloomberg,
Eurobank Global Markets Research

HIGHLIGHTS

SOUTH EASTERN EUROPE

BULGARIA: Inflation slipped again into negative territory in July. Consumer prices slipped to -0.2% mom/-0.2% yoy down from -0.9% mom /+0.4% yoy in June up from -0.2% mom/+0.9% yoy in May.

ROMANIA: Inflation came at -0.2% mom/-1.7 yoy in July inching down from -2.95% mom/-1.55% yoy in June vs. +0.5% mom/+1.2% yoy in May lower than market consensus (Bloomberg: +0.1% mom/-1.3% yoy).

SERBIA: The FX reserves of the NBS stood at €10.6bn in July up by €338mn from June. On a monthly basis, the largest outflows include repayment of €52.3mn in maturing bonds, €47.5m to international creditors, €31.1m repayment of maturing frozen savings bonds.

CESEE Markets: The news of the **Chinese Yuan** devaluation continues to dominate global financial markets for a second day in a row.

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August 12, 2015

BULGARIA: Indicators	2014e	2015f	2016f
Real GDP growth %	1.7	1.8	2.2
CPI (pa, yoy %)	-1.4	0.3	1.2
Budget Balance/GDP*	-3.7	-2.5	-2.4
Current Account/GDP	0.9	2.0	1.5
EUR/BGN (eop)	1.9558		
	2014	current	2015f
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

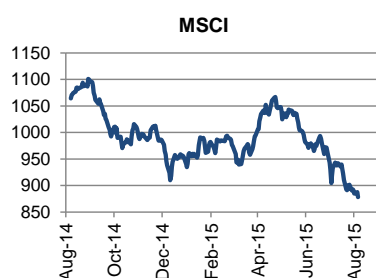
ROMANIA: Indicator:	2014e	2015f	2016f
Real GDP growth %	2.9	3.4	3.5
CPI (pa, yoy %)	1.1	-0.5	1.8
Budget Balance/GDP *	-1.9	-1.9	-2.8
Current Account/GDP	-0.4	-1.0	-1.5
EUR/RON (eop)	4.40	4.45	4.40
	2014	current	2015f
Policy Rate (eop)	1.75	1.75	2.50

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2014e	2015f	2016f
Real GDP growth %	-1.8	0.0	1.5
CPI (pa, yoy %)	2.1	2.2	3.8
Budget Balance/GDP	-6.7	-5.3	-4.6
Current Account/GDP	-6.0	-4.3	-4.1
EUR/RSD (eop)	120.96	123.00	124.00
	2014	current	2015f
Policy Rate (eop)	8.00	6.00	5.50

Source: Reuters, Bloomberg, Eurobank Research, National Authorities



Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	B1	BB-	B+
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BB+	BBB-
CYPRUS	B3	B+	B-

Source: IMF, EC, Reuters, Bloomberg, National Authorities, Eurobank Research

Latest world economic & market developments in the CESEE region

BULGARIA

Inflation slipped again into negative territory in July. Consumer prices slipped to -0.2% mom/-0.2% yoy down from -0.9% mom /+0.4% yoy in June up from -0.2% mom/+0.9% yoy in May. Negative food prices for the first time since last January were the main culprit behind inflation developments given their high share in the consumer basket (34% weight). Driven by lower prices for vegetables and fruits as a result of seasonal factors, food prices came at -1% mom/-0.9% yoy down from -2.3% mom/+0.5% yoy in June vs. -0.9% mom /+1.6% yoy in May. On a monthly basis, the group of clothing & footwear recorded the largest decline (-2.7% mom/+0.1% yoy) and the group of recreation & culture the largest increase (+4.5% mom/+1.9% yoy). On an annual basis, transportation recorded a hefty decline (+0.6% mom/-7.5% yoy) driven by lower world energy while regulated prices (+3.8% yoy in July down from +4.9% yoy in June) had still one of the highest positive contribution to inflation. In its latest economic review, the Central Bank expressed the view that deflation will abate until the end of the year driven by higher food and energy prices.

ROMANIA

Inflation came at -0.2% mom/-1.7% yoy in July inching down from -2.95% mom/-1.55% yoy in June vs. +0.5% mom/+1.2% yoy in May lower than market consensus (Bloomberg:+0.1% mom/-1.3%yoy). The further decline of the food prices component of CPI (-1.2% mom/-7.3% yoy in July vs. -8.2 mom/-6.4% yoy in June) was once more the main driver behind the inflation decline. As it was widely anticipated, the implementation of the front-loaded food VAT rate cut-from 24% to 9% effective from June 1st- has pushed inflation into negative territory, given the high share of food products in the consumption basket (32%). On the other hand, non-food items (+0.5% mom /+1.3% yoy) and services (+0.1% m/m, +2.2% y/y) recorded a slight pick-up. NBR downgraded recently its year end inflation forecast to -0.3% in 2015 down from 0.2% and 0.7% in 2016 up from 0.5% in the previous report. The Central Bank anticipates now that headline inflation will remain in negative territory over the next three quarters and stay below the lower bound of NBR target interval (2.5%±1%) until the beginning of 2017. Netting out the impact of the frontloaded VAT rate cut for food effective since last June and the planned headline VAT rate cut effective from 2016, inflation is projected to reach 2.8% and 2.4% at end-2015 and end-2016 respectively within the target band. From a rate setting point of view, the July inflation reading doesn't change any of our earlier expressed views. The 25bps cut in early May (from 2% down to 1.75%) had most probably been the last under the current easing cycle. Looking ahead, we anticipate the Central Bank to remain on hold in the coming months until the uncertainties stemming from the fiscal side have cleared out. From that point of view we will have a better sense if the parliament revisions of the Fiscal Code in late August will bring any meaningful change in the envisaged fiscal loosening plan. In other news, industrial production inched up +0.6% mom/+2.7% yoy in July vs. -0.1% mom/+2.6% yoy in June albeit the poor performance of manufacturing (-1.7% mom/+0.9% yoy).

SERBIA

The FX reserves of the NBS stood at €10.6bn in July up by €338mn from June. On a monthly basis, the largest outflows include repayment of €52.3mn in maturing bonds, €47.5m to international creditors, €31.1m repayment of maturing frozen savings bonds. The largest inflows include €230m bought in FX market interventions and €145.4m from bond sale in domestic market.

CESEE Markets

The news of the **Chinese Yuan** devaluation continues to dominate global financial markets for a second day in a row. The Chinese Yuan hit a four year low on Wednesday, dropping as low as 6.4510/USD, its weakest since August 2011, after the central bank set its daily midpoint reference at 6.3306, even weaker than Tuesday's devaluation. The **MSCI Emerging Markets Index** slid 1.5 percent to 865.07, extending losses from its September peak to 21%. While emerging market currencies from Indonesia to Brazil appear most vulnerable to the Yuan devaluation, **CEESE currencies** have hardly moved against the euro this week, looking fairly insulated from moves in the global markets. The **Hungarian forint**, the **Polish Zloty** and the **Czech Crown** even gained 0.1% against the Euro on Wednesday. **CESEE Bonds** firmed as investors are already speculating that all the latest market upheaval may lead to the Fed not starting to hike interest rates in September. The 10-year bond yields of Hungary and Poland dropped 7 basis points to 3.5% and 2.9% respectively.

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August 12, 2015

GLOBAL MARKETS

Stock markets				FOREX			Government Bonds			Commodities					
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	(yields)	Last	ΔDbps	ΔYTD bps	Last	ΔD	ΔYTD	
S&P 500	2084.07	-1.0%	1.2%	EUR/USD	1.1142	0.9%	-7.9%	UST - 10yr	2.11	-3	-6	GOLD	1116	0.6%	-5.8%
Nikkei 225	20392.77	-1.6%	16.9%	GBP/USD	1.5582	0.1%	0.0%	Bund-10yr	0.63	0	9	BRENT CRUDE	50	1.2%	-13.2%
STOXX 600	385.02	-2.2%	12.4%	USD/JPY	124.25	0.7%	-3.7%	JGB - 10yr	0.36	-4	3	LMEX	2377	-3.1%	-18.4%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	458	0	-533
1-week	4.78	0	-523
1-month	5.16	0	-489
3-month	5.57	-1	-428
6-month	5.90	-1	-389

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	6.05	0	-300
5Y RSD	8.27	0	-191
7Y RSD	8.82	0	-326

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Nov-17	3.52	2	-74
USD Nov-24	6.49	0	-10

CDS

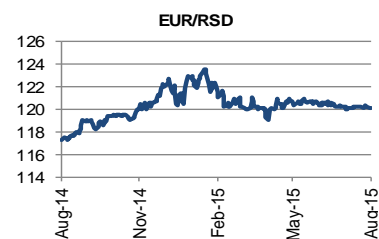
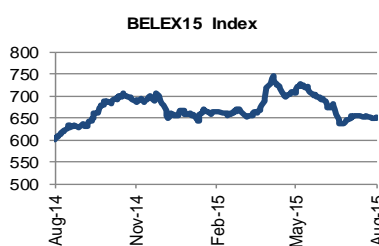
	Last	ΔDbps	ΔYTD bps
5-year	270	0	-20
10-year	316	0	-41

STOCKS

	Last	ΔD	ΔYTD
BELEX15	649.9	-0.55%	-2.57%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	120.16	-0.04%	0.99%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	0.71	0	14
1-month	1.01	0	10
3-month	1.32	1	-38
6-month	1.54	0	-47
12-month	1.63	-1	-39

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	1.92	-4	-39
5Y RON	2.46	-3	-25
10Y RON	3.70	-11	4

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Sep-20	1.44	-2	-29
USD Aug-23	3.68	-2	6

CDS

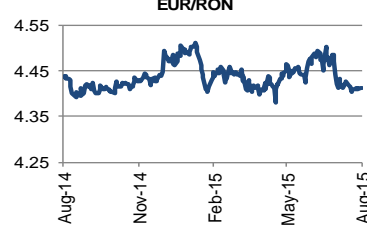
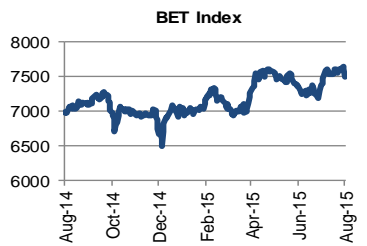
	Last	ΔDbps	ΔYTD bps
5-year	124	1	-18
10-year	166	1	-21

STOCKS

	Last	ΔD	ΔYTD
BET	7496.4	-1.33%	5.84%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.4124	0.01%	1.61%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	-1
1-month	0.17	0	-5
3-month	0.33	0	-10
6-month	0.62	0	-17
12-month	1.22	0	-29

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	0.55	3	-55
5Y BGN	1.00	-17	-45
10Y BGN	2.45	2	-31

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Jul-17	0.44	0	-72
EUR Sep-24	2.87	17	0

CDS

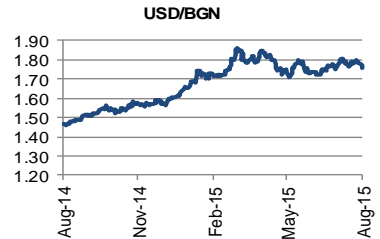
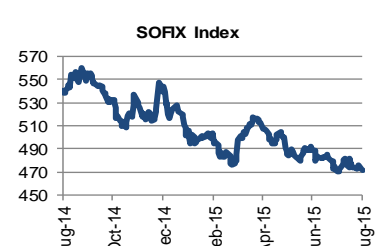
	Last	ΔDbps	ΔYTD bps
5-year	167	1	-24
10-year	213	0	-28

STOCKS

	Last	ΔD	ΔYTD
SOFIX	471.7	-0.16%	-9.66%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7555	0.89%	-7.92%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

Data updated as of 17:45 EEST of previous session

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